

October 25, 2007

The Honorable Timothy M. Kaine
Governor
Commonwealth of Virginia
Patrick Henry Building, 3rd floor
Richmond, VA 23219

Dear Governor Kaine:

I am pleased to provide our report of monthly activities and financial update for the month of September 2007, as required in Section 58.1-4006 of the *Code of Virginia*.

Sales for the month of September 2007 totaled nearly \$104 million, a decrease of \$22.6 million (-18%) from last month, and a decline of \$4.1 million (-4%) compared to September 2006. For the year to date, sales totaled \$340.2 million, which was \$27.4 million (+9%) more than the first quarter last year. September net income totaled \$36.6 million, for year to date earnings of \$120.6 million, up \$22.7 million (+23%) compared to the same period last year. Net income for the first quarter of fiscal year 2008 set a record for first quarter earnings.

We have completed our revised revenue forecast for the current biennium and reviewed the details with the State Lottery Board as well as Secretary Wagner. As such, the Board forwarded to you the revised net income projection of \$450.0 million for the current fiscal year, and \$450.0 million for fiscal years 2009 and 2010. The increased revenue forecast is the result of the continued sales from initiatives launched during the 2007 fiscal year, and predicts continued strength in sales and profits from further business enhancements in the coming biennium.

Fiscal Year 2008 has begun with record first quarter profits, primarily from the strength of Mega Millions sales resulting from the unusually strong jackpot growth during the period. I am proud of our many accomplishments over these past months as I have served in your administration. Further, I am confident that the Lottery will continue to meet players' expectations for lottery product offerings, and continue to generate profits in support of local public education across the Commonwealth.

Please let me know if you have any questions or if you would like more information.

Very truly yours,

Sheila Hill-Christian

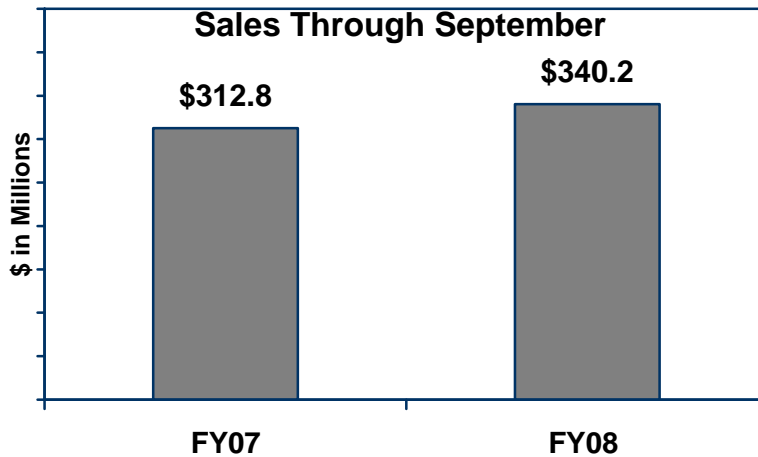
- c: The Honorable John H. Chichester, Chairman – Senate Finance Committee
- The Honorable Vincent F. Callahan, Jr., Chairman – House Appropriations Committee
- The Honorable Harry R. Purkey, Acting Chairman – House Finance Committee
- The Honorable Wayne M. Turnage, Chief of Staff – Office of the Governor
- The Honorable Jody M. Wagner, Secretary of Finance
- Mr. Richard D. Brown, Director – Department of Planning & Budget
- Mr. David A. Von Moll, State Comptroller
- Ms. Elizabeth B. Daley, Staff Director – Senate Finance Committee
- Mr. Robert P. Vaughn, Staff Director – House Appropriations Committee

VIRGINIA LOTTERY
Report to the Governor and
Selected Members of
the General Assembly
October 25, 2007

Sales

Lottery sales for the 2008 fiscal year through September totaled \$340.2 million, which was \$27.4 million (+9%) more than the prior year.

Sales increased in all product categories. Scratcher sales were up \$3.3 million or 2% compared to last year. Daily games (Pick 3, Pick 4, and Cash 5) sales finished the quarter up \$5.1 million or 5% over last year due to the addition of Sunday drawings in January 2007. Sales of the jackpot games, Mega Millions and Win for Life, increased \$16.9 million (+43%) from last year due to the incidence of significantly higher Mega Millions jackpots during the current fiscal year.

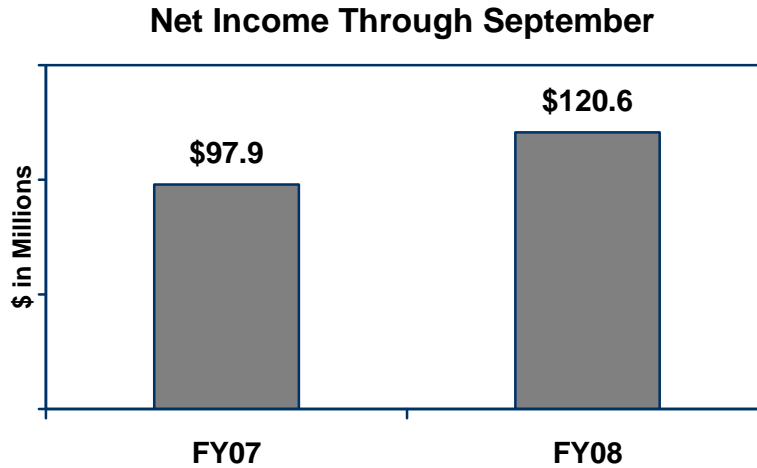


Expenses

The luck of the draw continued to dampen overall prize expense rates, with daily games' prizes totaling only 40.4% of sales. Overall, prizes comprised 54.9% of total sales, compared to 58.3% of sales for the same period in FY2007. Retailer compensation increased \$0.6 million due to the increase in sales, with the retailer compensation rate steady at 5.5%. Operating expenses totaled \$15.4 million, the same as FY2007 year to date.

Net Income

The lower overall prize expense rate combined with sales increases resulted in record first quarter net income of \$120.6 million, up \$22.7 million (+23%) compared to last year.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

For the 2008 fiscal year to date, the Lottery made payments to the Department of Taxation totaling \$226,547. Unclaimed prizes totaling \$3,792,359 were also transferred to the Literary Fund for the first quarter of fiscal year 2008.

MEETINGS

The State Lottery Board held a regularly scheduled business meeting on Wednesday October 24, 2007, in Richmond. The Board reviewed financial results, upcoming games, and the Lottery forecast of sales and profits as part of their regular business. The next Board meeting is scheduled for January 16, 2008, in Richmond.